

USAID/Albania

Annual Report

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Albania

Performance:

Background: Albania's transition to a democracy and market economy has been tumultuous. Its initial dose of economic transition in 1991 led to a sharp contraction in real GDP and high inflation. Economic recovery and declining inflation followed, with both the current account balance and fiscal deficit improving significantly. The 1997 pyramid scheme collapse brought another sharp reduction in growth and major inflation. The economy again rebounded and inflation reined in. The 1999 Kosovo refugee crisis put yet another strain on the economy, but the storm was weathered with donor community support. By 2001, Albania regained its 1990's GDP level, inflation was again under control, and the current account and domestically financed fiscal deficit improved significantly.

Twelve years into Albania's transition, developments both positive and negative and realities both encouraging and sobering have emerged in democracy, governance and rule of law. Elections occur on a regular basis, the news media is deemed free, the basics of a market economy exist, civil society demonstrates vitality, and universal standards on human rights are recognized. However, the GoA bureaucracies fall short of the mark in the deliverance of these rights and privileges. Pervasive and endemic corruption continues to taint the very legitimacy of the state.

Local government elections were held in October 2003 in a generally peaceful atmosphere in which the political discourse was more civil and less divisive than previous elections, though there were technical problems and a few incidents and irregularities. GoA ruling structures remained relatively stable throughout the year - until infighting occurred among the ruling party. The opposition party continued to participate in the Parliament; though it returned to its former tactics of charges of deceit and fraud. This non-cooperative political atmosphere led to a state of considerable uncertainty and volatility. It is difficult to envision the GoA giving adequate attention to key development issues until the current political crisis is resolved.

Half of the country's population of 3.5 million is under the age of 25. Albania's health portfolio represents a transitional profile similar to what is found in a developed nation where the primary causes of death are cardiovascular and respiratory diseases, cancer and trauma, while it still suffers from curable childhood and maternal diseases (e.g., Albania's infant mortality rate of 17/1,000 is the worst in SEE). The incidence of cancer and respiratory diseases is increasing as tobacco use climbs. Viral hepatitis and tuberculosis are the primary communicable diseases. Albania is reportedly a low prevalence HIV/AIDS country, with only about 120 confirmed cases of AIDS. However, U.N. Agencies believe the actual rate to be four to ten times higher. Abortion continues as a common means of controlling fertility, with 41.9 abortions performed in the public sector per 100 live births. An unknown number was performed by the private sector.

U.S. Interests and Goals: Albania is a staunch ally of U.S. foreign policy, as illustrated by its support for the USG's war on terrorism and its position on Iraq; entering into the Article 98 agreement; and the deployment of Albanian troops in Iraq and Afghanistan. USG assistance goals in Albania are to complete the transition to a market economy, establish a democracy based on the rule of law, and hasten EU integration. This will enable Albania, as the Balkans' majority Muslim country, to continue to support regional stability and USG foreign policy.

The above interests and goals are captured by the Mission Strategic Objectives (SOs). USAID supports growth in the number of self-sustaining micro, small and medium enterprises through macro, sectoral and firm level interventions. Democratization and rule of law issues are addressed by increasing the involvement of civil society in economic and political decision-making; establishing legal systems that

better support democratic processes and market reforms; and anti-corruption and anti-trafficking of persons. USAID is demonstrating the benefits of primary health sector reform by improving the primary health care system at selected sites and mitigating Albania's high maternal and child mortality and morbidity rates.

The U.S. Embassy Offices of Political/Economic and Public Affairs, along with the U.S. Departments of Justice, Treasury and Commerce, are all presently working together in the delivery of assistance for the achievement of USG interests and goals in Albania. Topical areas of cooperation with USAID include: anti-corruption, anti-trafficking, private investment, and trade.

Donor Relations: While there is considerable cooperation between USAID and other donors, there is room for improvement. Through work with the OSCE, the donor community coordinates its support for democratic reform, elections and improved security. USAID, WB and EBRD collaborate on energy reforms. A donor coordination group in support of the GoA's National Strategy for Social Economic Development meets regularly. The EC, DANIDA, DFID and USAID work jointly to assist the School of Magistrates. The SNV (Dutch Development) and USAID coordinate assistance efforts to local governments. USAID and the U.N. Fund for Population Activities are supporting reproductive health activities, specifically ensuring that adequate supplies of contraceptives are available at health facilities throughout the country. The WB, WHO and USAID are coordinating efforts to reform Albania's health sector. USAID also works closely with SIDA in the anti-trafficking of children.

Challenges: Fifty years of misguided economic policies continues to leave Albania with widespread poverty, a decrepit infrastructure and weak public institutions in 1991. Twelve years into transition, Albania's population has a per capita income of \$1,100, which is among the lowest in the region. The economy continues to be dominated by subsistence agriculture, providing for more than 50% of output, about 70% of employment, and a large informal sector. Albania is among the lowest recipients of FDI in the region, as poor infrastructure, corruption, and lack of commercial law discourages private investment. The country's trade imbalance is financed by high levels of private remittances, which are sensitive to internal and external shocks.

The deplorable conditions in the power sector threaten economic growth and political stability. Country-wide blackouts ranging from 3-14 hours are common. No new generation plants have been added to the system in over fifteen years. The physical infrastructure, from generation through distribution, is in a high state of disrepair and there is an over reliance on hydropower. These problems are compounded by physical limits on the ability to import electricity, 35-40% system losses, and households accounting for over 60% of the consumption at an artificially low tariff. As a consequence, the sector continues to be a serious drain on GoA budget resources.

Public support for reform is eroded by unemployment ranging from 10 to 22%, depending on the methodology used. Over 25% of all Albanians fall below the poverty line. Only one in four rural households have running water inside the dwelling; more than 50% have no running water; and only 14% of households receive electricity continuously. The poor are twice as likely to lack access to key services, and face physical and economic barriers to accessing quality health care.

There is a lack of will on behalf of political leaders and the bureaucracy to advance reform, especially in the fight against crime and corruption through implementation of the progressive laws enacted over the past decade. This is evidenced by the failure to establish implementing rules and regulations for these laws. Many government agencies simply do not have the procedures and systems in place to make legislative reform meaningful. These types of problems, and disconnects between legislation and reality, are common in many sectors.

In summary, Albania faces the major but not unique challenge of maximizing economic growth, employment and incomes through increased private investment, while increasing tax revenues, improving public services, and strengthening democracy, governance and rule of law.

Key Achievements: USAID/Albania achieved significant results in the areas of enterprise development,

elections, health, anti-corruption and energy sector reform. Gains were also made in the first two elements of the Mission's two-year program to improve obligation rates, minimize carryover and reduce pipeline levels. By cutting the number of management units through establishment of larger and faster disbursing umbrella mechanisms this past year, the Mission expects to bring about a major reduction in its pipeline in the second year of its action plan.

1. Growth in number of self-sustaining enterprises: The Mission made an impact on economic growth by providing technical and financial assistance to micro, small and medium enterprises (SMEs); enhancing export and international competitiveness; developing business associations; supporting first registration of immovable properties; and improving financial services. It also improved the labor force through business skills training of students in high schools and vocational colleges.

A total of 4,607 micro and SME enterprises received Mission assistance. The micro-loan program, serving over 2,500 poor Albanians, has achieved sustainability and received an A+ rating for a microfinance institution. Besides disbursing over \$1.9M to support a national micro-finance entity, the SME loan program used \$0.75M to leverage more than \$5.0M of loans from a commercial bank for its customers. With Mission financed expertise, other local entrepreneurs invested \$4.86M of their own funds; and were also able to obtain \$2.88M in trade credit and \$2.32M in bank loans. Technical support to Albanian Agribusiness Council increased the members' willingness to invest, and translated into a self-investment of 2.85M among its members, along with \$1.0M in trade credit and \$0.51M of bank loans.

USAID strengthened Central Bank supervision of commercial banks and trained key staff in Albania's Deposit Insurance Agency. The operations of members of the Insurance Associations of Albania were improved in claims management and practices. USAID supported implementation of the first registration of property in Albania's land titling process. Firms now can make transparent purchase, sale, mortgage and other legally valid property transfers. Over 700 students graduated from business education programs. Also, 19,500 students in 26 districts received non-formal training in business/economics. Training was also provided to 276 teachers and 50 businesses.

2. Increased involvement of civil society in economic and political decision making: USG support in democracy and governance (D&G) has seen the strengthening of civil society (esp. NGOs) and political party activists with growing participation of grass-roots citizens and organizations in the political process. The gradual maturation of the NGO community is increasingly being evidenced, as is the GoA's commitment to the decentralization of authority and resources to local governments. There is an extensive audience and public acclaim of Mission supported civil empowerment and investigative TV programs focused on corruption. USAID has completed 35 high visibility projects in 20 municipalities as part of the municipal infrastructure support program.

In the 2003 local government elections, USAID ensured that there was ample voter education to enhance voter registration. Citizens were educated on: a) citizen influence of party platforms at the local level, b) candidate positions through fair and balanced televised campaign debates, and c) election ethics. In addition, the number of educated domestic election observers was double that of the previous election in 2001, and the overall electoral administration was improved with Mission support. USAID also supported information campaigns to educate citizens on how to interact with local governments and to local governments on how to interact with citizens.

USAID supported the GoA's continued allocation of state assets to local governments based on a clear and transparent formula. With Mission support, Albania's standing in the NGO Sustainability Index continues to improve gradually year by year, as it does in the Media Sustainability Index (though more gradually). The GoA is also starting to enforce sanctions on the violation of intellectual property rights in the public broadcast sector.

3. Legal systems that better support democratic processes and market reforms: USAID support in rule of law achieved the landmark passage of the Law on the Declaration of Assets of Public Officials. The Mission financed: a) the provision of legal services to corruption and trafficking victims through the Citizens Advocacy Office; b) legal education in the Freedom of Information Act and the Administrative

Procedures Code to local governments and citizens; and c) introduction of new systems and techniques in court administration with the potential for nationwide roll-out. USAID also continued to upgrade the curriculum of the Albanian Magistrate's School.

Progress is being made in combating corruption with USAID assistance. Public awareness of what constitutes corruption increases, and more people are empowered to speak out against it. The GoA created a special ministerial post to deal with corruption issues. An increasingly strengthened and active group of individuals and NGOs are united against corruption within the Albanian Coalition Against Corruption. The Citizens Advocacy Office (CAO) investigates corruption complaints by citizens and provides legal services to human trafficking victims. The CAO conducts a weekly one-hour, call-in TV program on corruption that is the highest rated program in its time slot.

4. Improved primary health care (PHC) services: USAID strengthened Albania's health system through programs that are: improving the technical competencies of PHC providers in a wide range of reproductive health needs; enhancing the logistical and administrative capacity of the PHC system to meet the demand for contraceptives in a sustainable manner; and pilot testing of a new and more efficient PHC model. It also included advocacy of new reforms in health care and related sectors such as decentralization and finance systems, and improved coordination and collaboration among health care providers and concerned donors to reduce corruption.

With USAID assistance, there has been a 20% increase in coverage of the population having access to reproductive services over the past year, bringing the total national coverage to 68% of all Albanians being able to access family planning, HIV/AIDS and STI services, and antenatal and breastfeeding information and a two-fold increase in demand. The nationwide Contraceptive Logistics Management Information System is now fully functional and being maintained by the GoA. This is a major step forward in ensuring the sustainability in the supply of contraceptives at local levels. USAID experts assisted the Contraceptive Security Commission in passing its first national Reproductive Health Strategy, which the GoA formally adopted.

5. Special Initiatives: With Mission assistance, the GoA adopted a national energy strategy and enacted a power-sector reform law. This led to the establishment of the Electricity Regulatory Authority (ERE) as a self-regulating and financing entity, and, provides for the unification of the legal framework for integration with the South East European Regional Energy Market. ERE's managerial and technical capacities were strengthened through partnership programs with U.S. regulatory counterparts, and between the state power monopoly and U.S. utility counterparts.

USAID's initial protection and reintegration support program is beginning to help meet the diverse needs of trafficked women, girls and children. It developed a systematic national referral mechanism based on the regional and global presence of the International Organization for Immigration (IOM) and tested models for a sustainable reintegration and shelter mechanism for trafficked victims. This activity, which ends this year, completed the reconstruction of a GoA-run shelter. Collaboration and cooperation was also strengthened between Albania, Greek, and Italian authorities and NGOs dealing with anti-trafficking issues such as prevention, protection, assisted voluntary return and re-integration, particularly in the area of child trafficking.

Gender: The Mission addresses gender issues through its participant training program, in which women account for 50% of the beneficiaries; through support for WID's women's legal rights initiative; and directly and indirectly through its economic development, civil society, primary and reproductive health, and anti-trafficking activities. One element of the latter focuses on women and girls and addresses the preventive, humanitarian and regional dimensions of trafficking, and strengthening the capacity of NGOs and the GoA to deal with these issues.

Trade Capacity Building: USAID strengthened the Agribusiness Council's role in serving the interests of farmer associations and agribusinesses by participating in Albania's negotiations of Free Trade Agreements with neighboring countries. In addition, support for the Albanian Center for International Trade improved the trade policy analysis and advocacy of the GoA Ministry of Economy. Mission energy

sector support accelerated GoA efforts to eventually join the South East European Regional Energy Market.

Country Close and Graduation:

Results Framework

182-0130 Growth in Number of Self-Sustaining Private Enterprises

SO Level Indicator(s):

Number of Active Registered Enterprises

IR 1 Business Capacity of Agriculture and Livestock Enterprises Enhanced

IR 2 Small and Medium Non-agriculture Enterprises Increased

IR 3 Financing of Small and Medium Enterprises Increased

182-0140 A More Competitive and Market-Responsive Private Financial Sector

182-0160 Increased Environmental Management Capacity to Support Sustainable Economic Growth

182-0210 Increased Involvement of Civil Society in Economic and Political Decision Making

SO Level Indicator(s):

NGOs participating in the political process

IR 2 Increased Citizen Confidence in Accuracy of News and Information

IR 3 Increased Independence of Local Administration from Central Government

IR 4 Representative Government Institutions Strengthened

IR1 Citizen Participation in Public Discussions on Key Governance Issues Increased

182-0220 Legal Systems that Better Support Democratic Processes and Market Reforms

SO Level Indicator(s):

Judicial Reform Index

IR 1 Legal Sector Institutions Improved

IR 2 Greater Advocacy for a More Transparent Legal System

182-0230 More Effective, Responsive and Accountable Local Government

182-0320 Improved Selected Primary Health Care Services at Targeted Sites

SO Level Indicator(s):

Service delivery points providing primary health care

IR 1 Health Resources Efficiently Managed

IR 2 Quality of Primary Health Care Services Improved

IR 3 Increased Use of Primary Health Care Services

182-0410 Special Initiatives

182-0420 Cross-Cutting Programs